The Congressional Budget Office: Its Role, Long-Term Projections, and Use of Research

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For more details, see Congressional Budget Office, *The 2017 Long-Term Budget Outlook* (March 2017), www.cbo.gov/publication/52480.

CBO's Role

CBO was created by the Congressional Budget and Impoundment Control Act of 1974.

It provides analysis of budgetary and economic issues that is **objective** and **impartial**. The agency is strictly **nonpartisan**.

The **Director** is appointed jointly by the Speaker of the House and president pro tempore of the Senate.

CBO has about **235 employees**, who are hired solely on the basis of professional competence, without regard to political affiliation. Most have advanced degrees.

A **Panel of Economic Advisers** improves CBO's understanding of economic research, macroeconomic developments, and economic policy.

(For more information, see www.cbo.gov/about/processes/panel-economic-advisers.)

A **Panel of Health Advisers** improves CBO's understanding of health research and of developments in health care delivery and financing.

(For more information, see www.cbo.gov/about/processes/panel-health-advisers.)

CBO's products include the following:

- **Baseline budget projections** and **economic forecasts** covering the 10-year period used in the Congressional budget process;

- **Long-term budget projections** covering a 30-year period and Social Security projections over a 75-year period;

- **Cost estimates** of legislation, including analyses of federal mandates;

- **Analysis of the President's budget** (including its likely economic effects and their budgetary feedback);

- **Scorekeeping** for enacted legislation; and

- **Analytic reports** examining specific federal programs, aspects of the tax code, and budgetary and economic challenges.

An Overview of the Long-Term Budget Outlook

If current laws governing taxes and spending did not change, the **condition of the federal budget would worsen** considerably over the next three decades.

Growth in federal spending would continue to outpace growth in federal revenues, leading to **ever larger budget deficits**.
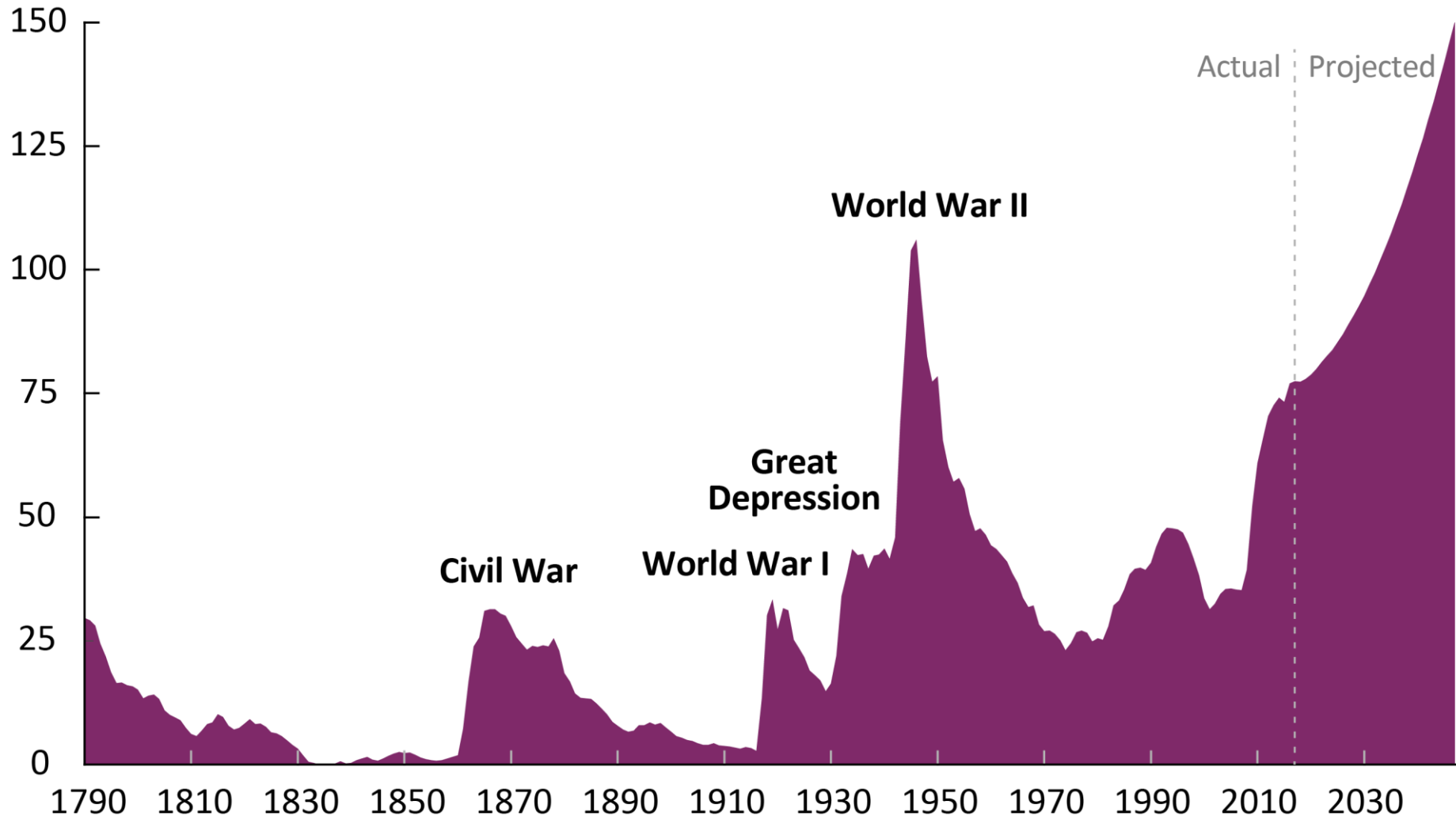
Federal Spending and Revenues

Percentage of Gross Domestic Product
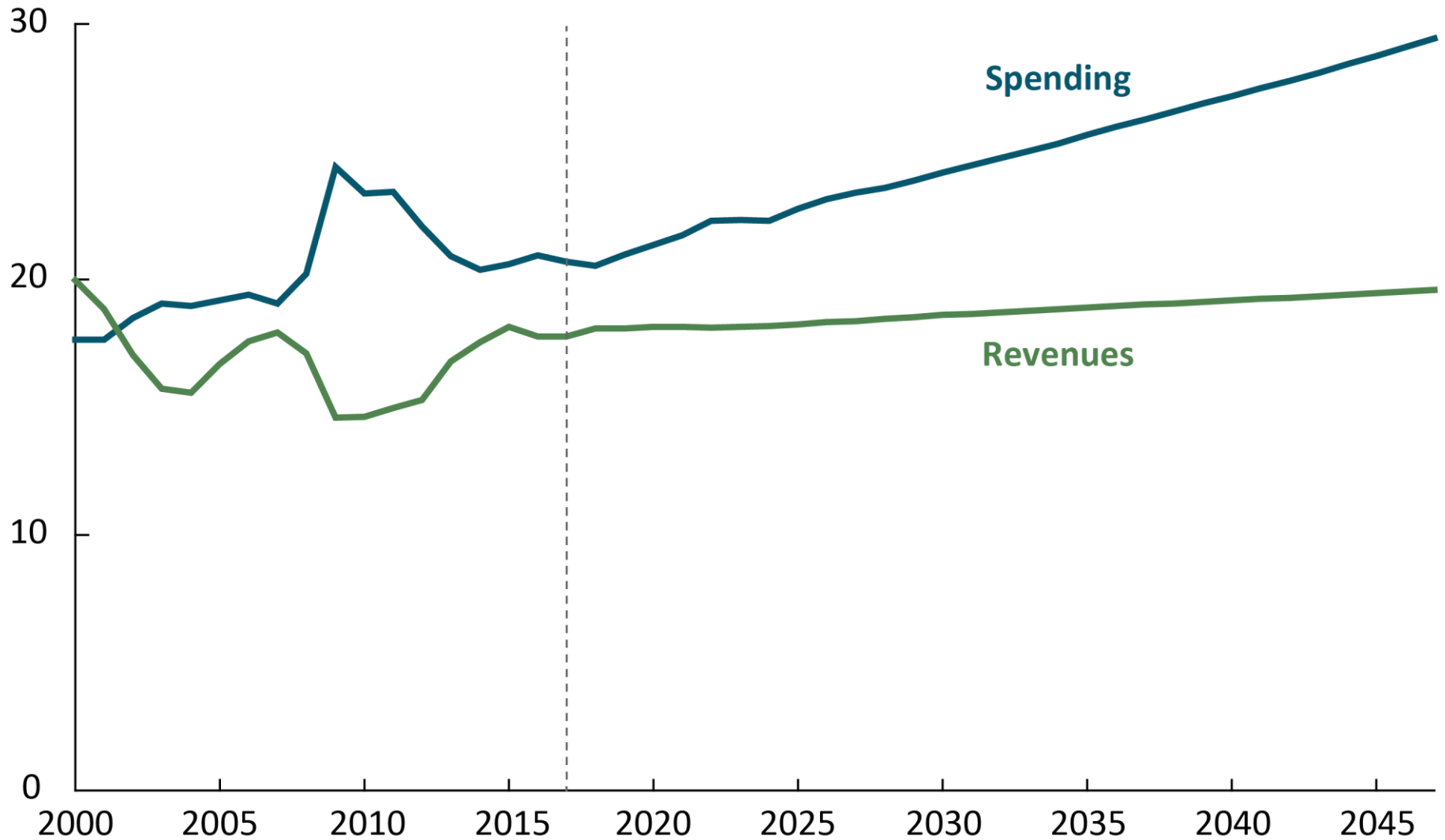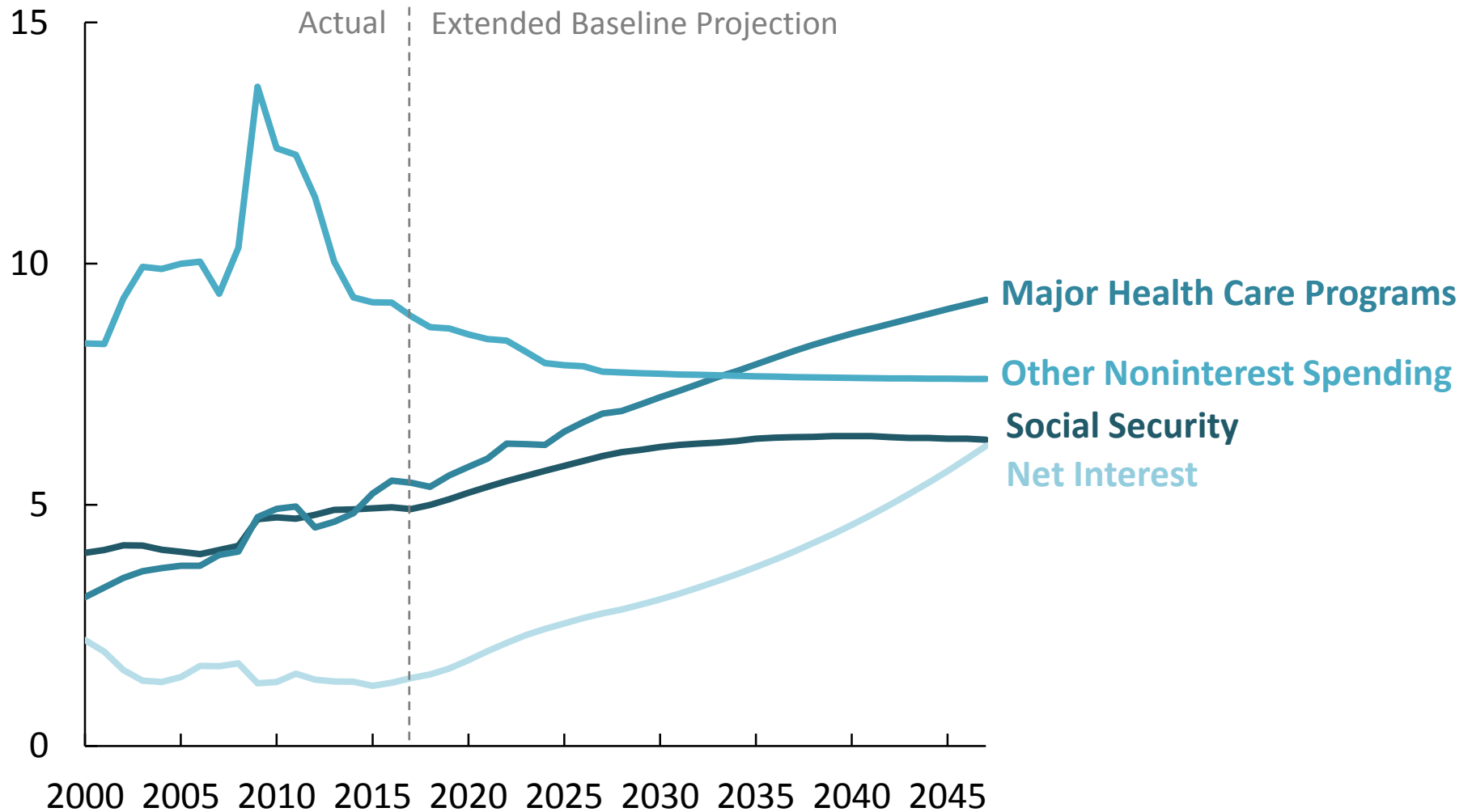
Federal Debt Held by the Public

Percentage of Gross Domestic Product

Federal spending is projected to rise noticeably in relation to the economy because of growth in spending on Social Security, the major health care programs, and interest on the government's debt.
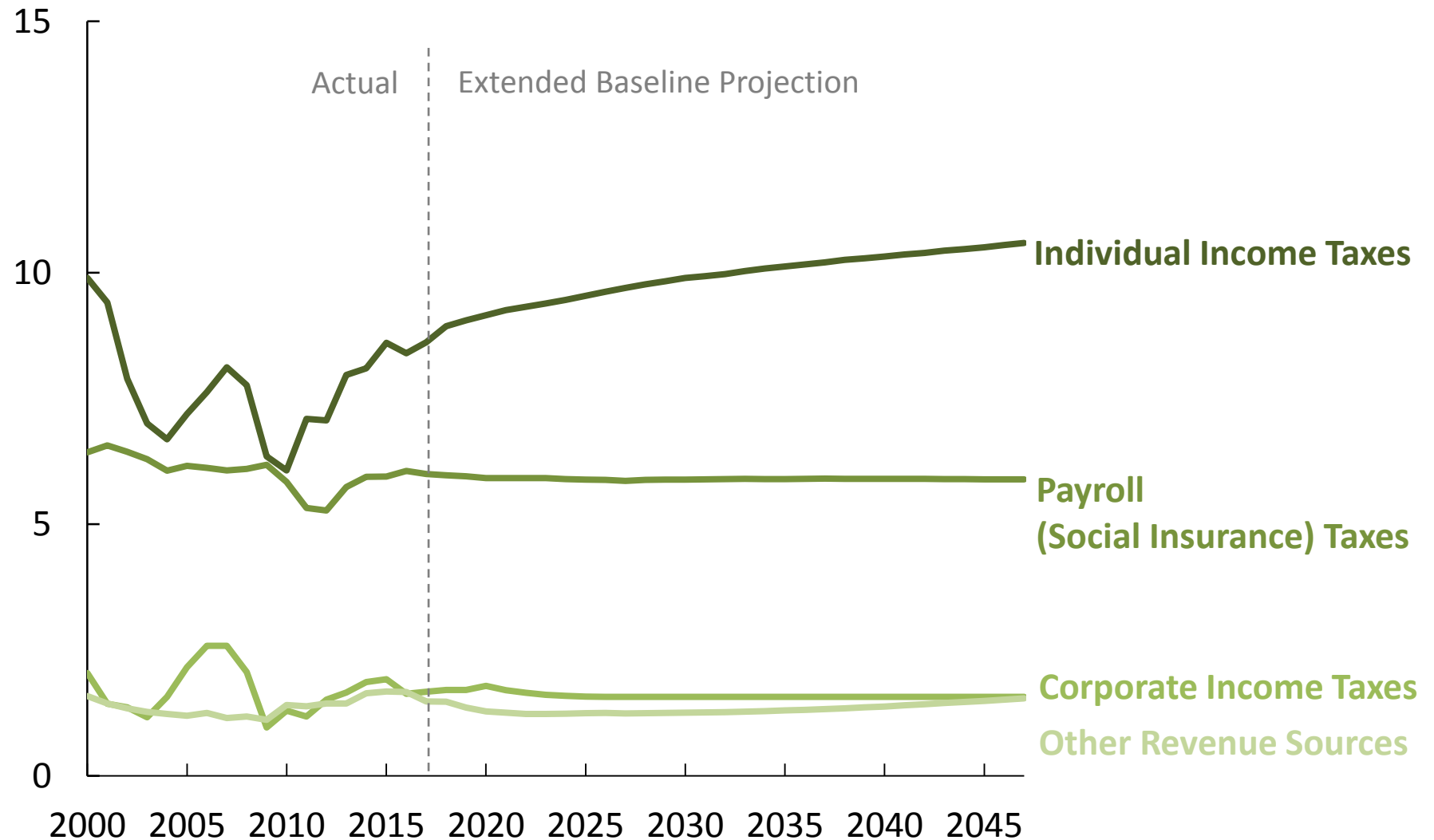
Components of Federal Spending

Percentage of Gross Domestic Product

Federal revenues would also increase if current laws remained generally unchanged, but they would increase much more slowly than federal spending.
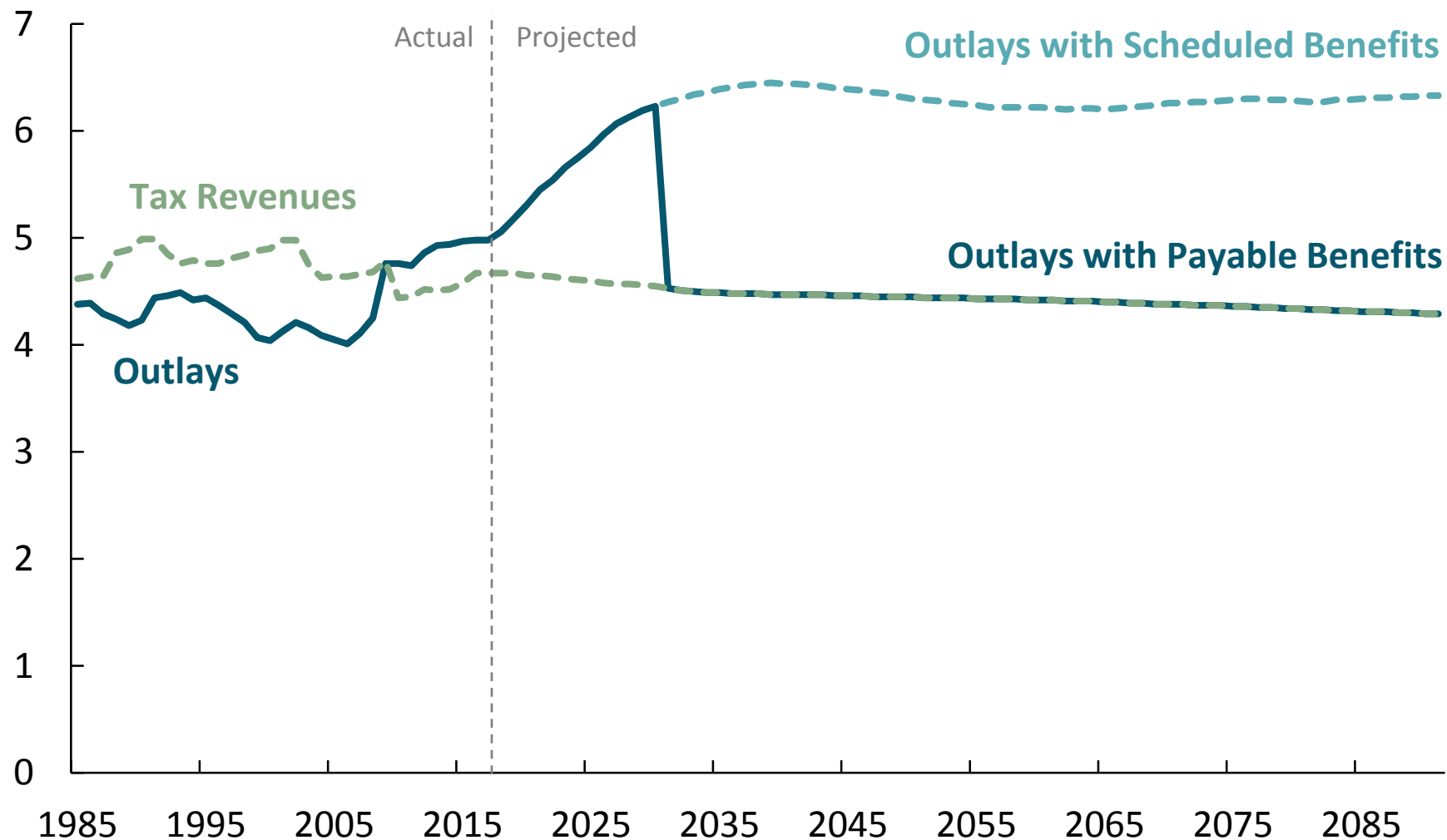
Components of Federal Revenues

Percentage of Gross Domestic Product

CBO's Projections of Social Security Finances

Projections of Social Security Revenues and Outlays
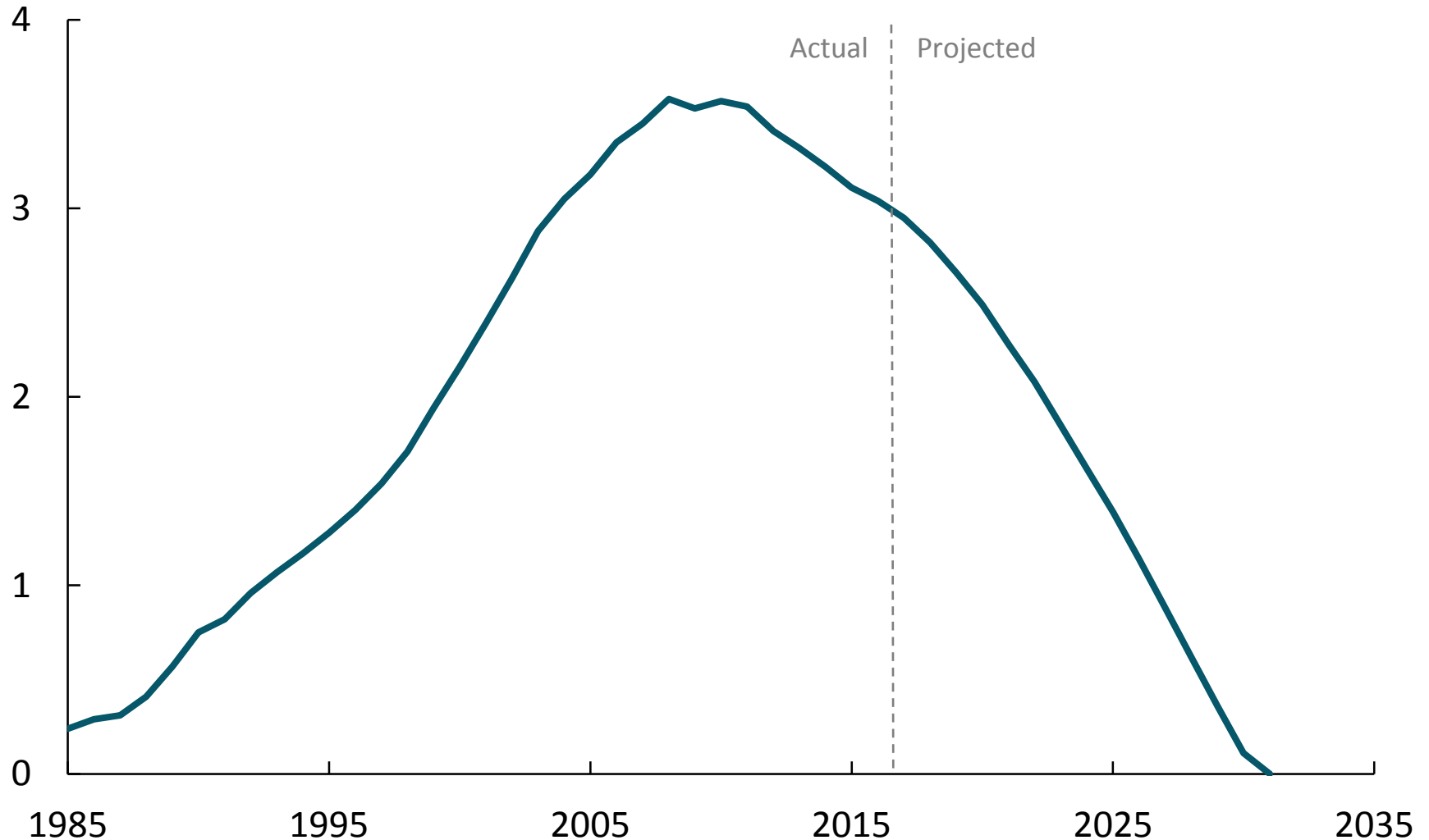
Percentage of Gross Domestic Product

CBO projects that, under current law, the **combined OASDI trust funds** would be exhausted in calendar year 2030.

The DI trust fund would be exhausted in fiscal year 2023 and the OASI trust fund would be exhausted in calendar year 2031.

Exhaustion of the Combined Social Security Trust Funds

Trust Fund Ratio

Projections Social Security's 75-Year Actuarial Balance (2017–2091)

	As a Percentage of Gross Domestic Product			As a Percentage of Taxable Payroll		
	Income Rate	Cost Rate	Actuarial Balance (Difference)	Income Rate	Cost Rate	Actuarial Balance (Difference)
Old-Age and Survivors Insurance	4.1	5.4	-1.3	12.0	16.0	-4.0
Disability Insurance	0.6	0.8	-0.2	1.9	2.4	-0.5
Combined	4.7	6.3	-1.5	13.9	18.4	-4.5

Projections of Social Security finances have improved slightly since last year.

The 75-year actuarial balance (AB) is now -1.5% of gross domestic product (GDP); last year it was -1.6%.

The annual shortfall between income and cost in 2090 fell from 2.1% GDP to 1.9%.

Two changed projections improved the outlook (as measured by the actuarial balance):

- Higher projection of labor force participation (+0.2% of GDP), and

- Greater projection of the share of earnings that are taxable for Social Security (+0.1% of GDP).

Four factors offset some of those improvements:

- Lower projected productivity (-0.1% of GDP);

- Lower projected interest rates (-0.1% of GDP);

- Changes to demographics—mostly lower projected immigration (a small change); and

- An additional year included in the 75-year valuation period (a small change).

CBO projects **larger deficits** in Social Security's finances than do the Social Security Trustees.

The Trustees project the 75-year actuarial balance to be -1.0% of GDP, 0.5 percentage points smaller than CBO's projection.

They also project the shortfall between income and cost in 2090 to be 1.5% of GDP, 0.4 percentage points smaller than CBO projects.

The difference is largely explained by **different projections** of factors that influence the Social Security system.

CBO projects that a smaller share of total earnings will be taxable for Social Security.

It projects lower interest rates and slower economic growth.

It also projects that there will be fewer people of working age compared to the number of elderly.

CBO's Use of Research and Data

CBO uses a **broad range of evidence** to inform its analysis. That evidence includes studies by others, historical data for federal programs, and any data available from states.

CBO also conducts **original research** using administrative records and survey data; Social Security, CMS, and IRS administrative data; and data from the Bureau of the Census and other household surveys.

CBO sometimes uses **specialized data**. For example, many of the relationships in CBO's long-term model are estimated using Social Security administrative data matched with survey data.

For example, CBO has estimated the following:

- **Marital transitions** for individuals in CBO's long-term model;

- Characteristics of **women who have babies** in a given year; and

- Characteristics of **workers claiming benefits** at various ages.

A number of **broad research areas** inform CBO's analysis.

For example, earnings inequality and labor force participation are important for long-run Social Security projections.

Other research areas include estimates of employer-sponsored health insurance (ESI) and state decisions regarding the Medicaid program.